

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date			Date Audit Report Submitted to State		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

SUMMIT POINTE
Community Mental Health Authority

Financial Statements
September 30, 2007



Summit Pointe
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September 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Summit Pointe
Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Summit Pointe as of and for the year ended September 30, 2007, which collectively comprise Summit Pointe's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Summit Pointe's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Summit Pointe as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2008 on our consideration of Summit Pointe's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Summit Pointe's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Summit Pointe. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

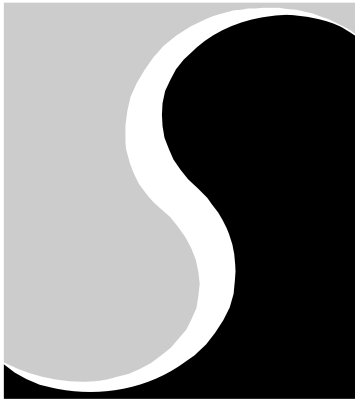
A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS





SUMMIT POINTE

Management's Discussion and Analysis

For the fiscal year ended September 30, 2007

Management of Calhoun County Community Mental Health Authority (CMHA), also known as Summit Pointe, presents the following discussion and analysis of financial activities during fiscal year 2006/2007. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify material changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

Beginning October 1, 2002, the Medicaid funds for Barry, Berrien, Branch, Calhoun, and Van Buren counties were paid to Summit Pointe. Summit Pointe entered into a contract with Michigan Department of Community Health (MDCH) to administer the above Medicaid funds for behavioral health services. Summit Pointe continued to operate as Prepaid Inpatient Health Plan (PIHP) in fiscal year 2006/2007. Summit Pointe Board delegated the administration of regional Medicaid contract to Venture Administrative Board. Venture Administrative Board consists of two voting members from each of the five member counties and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITRFA).

Venture Administrative Board set up a goal to become a successful benefits manager. To achieve this goal the organization was able to ensure the following mega ends statements:

- Acceptability (plan members are satisfied with their behavioral health care services);
- Value (the community supports behavioral health services; affiliate community mental health organizations benefit from their participation; administrative efficiencies are achieved);
- Accessibility (plan members are made aware of services and those who seek behavioral health services are seen at or above stated standards);
- Impact (plan members utilizing behavioral health services experience improvements in their quality of life with a focus on maximizing recovery and self-sufficiency; all providers improve their clinical service delivery and administrative practices);
- Risk Management (Venture and its five affiliates suffer no critical consequences of a fiscal, public perception or legal type).

Fiscal year 2006/2007 was a major year for our development. We made serious strides in completing a state of the art information management system; strengthened our proof of performance to the point of scoring very high in the independent External Quality Reviews performed on PIHPs in the state;

continued our evolution into commonly administered evidence based practices; created a model utilization management system that builds in affiliate development as a goal and intrinsic process; improved our financial planning and monitoring systems; prepared to meet federal standards on our performance improvement program.

Continued commitment to evidence-based practices and uniform benefit for consumers in the region remained our high priority. A significant number of clinicians attended trainings in the areas of Family Psycho-education, Integrated Treatment of Co-occurring Disorders, Adolescent Substance Abuse Treatment, Cognitive Therapy (Extramural/Co-occurring), Dialectical Behavior Therapy (Intensive/Skills/Adolescent/ Developmental Disabilities/Substance Abuse), Geriatric Treatment, CAFAS, and Diagnosis of Substance Use Disorders. We made significant investments in clinical development that ensures the highest quality of care.

Major accomplishments in functional areas are presented below:

External Reviews

Venture Behavioral Health operates under a contract with the state of Michigan to administer the behavioral health benefits to Medicaid plan members for the five county region. As such, we were audited by HSAG, who conducted a quality site review. The major findings include the following:

- HSAG Site Reviews Scores for Standards I-XV
 - 100% QAPIP, Performance Measure and Improvement, Practice Guidelines, Staff Qualifications and Training, Coordination of Care
 - 95-99% Utilization Management, Recipient Grievance Process, Recipient Rights and Protections, Subcontracts and Delegation, Provider Network, Appeals, Advance Directives
 - 90-94% Customer Service
 - Lowest score (50%) in Access and Availability. The current project in this area has demonstrated significant improvement.
 - First Service/Coordination of Care PIPs were given a “met” status

Information Technology

Successful benefits management requires accurate timely data. Venture has invested significantly in evolving a successful information system. Venture implemented the following changes towards this evolution:

- Implementation of Practice Management at all affiliates
- Implementation of Smart Care (Electronic Health Record) at four affiliates
- Installation of integrated phone system that allows for extension to extension dialing between all affiliates (except Barry) and Venture central reducing long distance charges
- Venture Technology Center upgrades including new servers, raised flooring, back up generator system, and upgraded cabling, to increase performance, integration and disaster preparedness
- Enhanced abilities for business partner electronic data interchange

Member Services/ Recipient Rights

The assurance that all plan members understand and have support to assure their individual rights are respected in the pursuit and delivery of care is a duty of the health plan. To support these aims Venture:

- Developed collaborative Recipient Rights annual site reviews for hospitals reducing Rights Officers duplicative efforts
- Developed new member handbook in conjunction with DCH based on Venture's "best practice".
- Held regional training on customer services standards to ensure compliance by 10/01/07.
- Performed in depth review of current departmental processes and developed recommendations and goals for ensuring compliance for FY08

Performance Improvement

At the end of the day our success or failure is about how well we perform expected functions as a public steward of benefits. The area of Performance Improvement reflects both those requirements imposed upon us by our funders and our internal commitments to each other for continuous progress as providers of behavioral healthcare. In this area, Venture:

- Completed / submitted Performance Improvement Project Reports to MDCH
- *First Service* PIP validation – attained "MET" status through HSAG
- Performance Measure Reporting –
 - Significant & quantifiable improvements – especially for access indicators
 - Development of Oversight Monitoring System for First Service
 - Promote customer access by identifying customer service issues (scheduling of appointments)
 - Improved report accuracy by identifying reporting errors for correction
 - Performance Measure submission – elimination of submission errors through oversight review
- *Co-Occurring* PIP – update report demonstrates statistically significant improvement in identification of SA at intake
- Implementation of Data Review Sessions – shared PI/HRM session
- Improved Customer Satisfaction Reporting – provision of qualitative analysis of comments
- Improved Reports Formats – dashboard; Apple Report
- Actively participated in state-wide CMHSP benchmarking project (BPS)

Provider Network Management

Provider Network Management includes those insurance plan functions that speak to the orientation, training and oversight of the independently contracted providers delivering care in the health plan. Significant accomplishments in 2007 include:

- Completed Site Monitoring and Reporting for 5 Affiliates, 1 Regional Coordinating Agency, 8 Inpatient Providers, 2 Crisis Residential Program sites, 9 Substance Abuse providers, 2 AARs
- Negotiated and secured fully executed contracts for nine inpatient settings and one crisis residential provider

- Maintained provider files with updated credentialing and required documentation
- Published and distributed Four Provider Newsletters
- CEO's for Barry, Branch and Calhoun have agreed to have Venture begin in 2008 Credentialing and performing contract monitoring for shared specialized residential providers. Venture will share the information thus eliminating affiliates from duplicating work.
- Worked with other PIHPs in Michigan to obtain site review reports for shared providers to ensure we meet monitoring obligations while ensuring efficiency for both our providers and our PIHP.

Health Resource Management/Clinical Initiatives

The task of resource management is the most important function of the Administrative Services Organization. The following reflect some of the major efforts of 2007:

- Implementation of Family Psychoeducation (FPE) and Eye Movement Desensitization and Reprocessing – Maintenance of Dialectical Behavior Therapy, Cognitive Therapy
- Completion of data collection for FPE Fidelity review and OQ-30 (Outcome Questionnaire-30) clinical outcomes baseline assessment
- Development of Improving Practices Leadership Team consisting of affiliates, providers, consumers
- Implementation of the UNCOPE to screen for substance abuse issues
- DD Resource Allocation Protocol (RAP) – Training completed and 927 RAP Assessments currently in system
- Integration of Performance Improvement Committee with Health Resource Management Committee to increase focus on improving data (via improved data completeness and accuracy and improved processes) - - significant focus this year on Performance Measure Project

Summit Pointe continued to contract with the MDCH for the State General Fund services for priority population residing in Calhoun County. Summit Pointe also continued to provide behavioral health services to other segments of population. First and third party payors, contractual agreements and other non-MDCH sources of income accounted for 16.0% of Summit Pointe revenues as a Host Board.

In fiscal year 2007 Summit Pointe pooled funds with local courts to start a special program for children and youth. Calhoun County Pooled Funding/Wraparound is a unique publicly operated managed care system organized under the auspices of Calhoun County Community Mental Health. It serves 250 youth with severe mental health and/or behavioral needs, referred through the juvenile justice or child welfare systems, who would otherwise be placed in psychiatric hospitals, residential treatment centers or juvenile correctional facilities. The features of this case management model include individually developed plans of care; a care coordination management system whose role is to ensure that services are strength-based, coordinated, monitored and evaluated; a Provider Network that furnishes an array of mental health, child welfare and supportive services; strong and active family involvement in implementing plans; and a managed care approach to monitor service utilization, quality and cost. Approximately 75% of enrolled children have Medicaid.

FINANCIAL HIGHLIGHTS

Venture PIHP was able to achieve its financial goals in fiscal year 2006/2007. Regional Medicaid revenues exceeded expenditures by \$225 thousand. These funds will be spent on supports and services to Medicaid eligible customers in fiscal year 2008. Reduction in Medicaid savings in fiscal year 2007 was attributed to an increase of Medicaid customers and the amount of services provided to them. Venture strategic goal was to increase Medicaid penetration. Community outreach, preventive services, and person centered planning were the key components that allow achieving this strategic goal. Specialty Managed Care Services Internal Service (Risk Reserve) Fund (ISF) was maintained at \$5.3 million. The ability to fund ISF at the maximum allowable level (per the MDCH contract, 7.5% of Medicaid revenues) demonstrates prudent risk management strategy.

Summit Pointe as a Host Board posted a loss of \$384 thousand of General fund. Summit Pointe used \$226 thousand of General Fund (GF) risk reserve to cover part of this loss. The remaining part of General fund loss was covered by surplus in Adult Benefit Waiver. Local funds (patient service revenues, interest income, county contribution, and other) were less than local match obligations by \$307 thousand. We used unrestricted fund balance to cover local match deficit. Cost in excess of reimbursements from Medicaid Medical Health Plans and acquisition of residential properties (to provide affordable housing for Medicaid and indigent customers) were the major factors that contributed to the local funds deficit in fiscal year 2006/2007.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) - GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when “earned” and expenses recorded when “incurred”, without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to the prior years annual financial reports.

Fund financial statements are divided into two categories. These are special revenue fund financial statements and proprietary fund financial statements.

Special revenue fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts. Another proprietary fund reflects resources pooled by Summit Pointe and local court to provide wraparound services for youth.

FINANCIAL POSITION

Key financial indicators of Summit Pointe are presented in Table 1.

					Dan & Bradstreet	
					Industry Benchmarks	
			Sep-07	Sep-06	Upper Quartile	Median
<u>Self-Sufficiency</u>						
Net Income Margin, %			1.3	4.2	6.0	1.7
Return on Assets (annualized), %			4.2	12.3	7.5	3.8
Net Income as % of Fund Balance			6.4	19.3	13.4	7.6
<u>Financial Stability</u>						
Current Assets to Current Liabilities			2.0	1.8	2.7	1.7
Total Liabilities to Fund Balance			0.50	0.50	0.33	0.69
Fixed Assets to Fund Balance			0.20	0.11	0.39	0.60
Cash Available for Fund Balance, %			74.3	79.7	N/A	N/A
<u>Efficiency</u>						
Days in Accounts Receivable			126	87	23	31
Days in Accounts Payable			19	22	6	8
Revenues to Net Working Capital			9.6	10.4	15.2	6.4
Revenues to Assets			3.3	2.9	2.3	1.8

Current financial ratios are compared with financial indicators for the last fiscal year and industry statistics (upper quartile and median). Dun & Bradstreet provided benchmarks for the specialty outpatient clinics industry.

Significant investments in staff and providers development, information technology, prevention and community outreach activities contributed to the decrease of current year operating margins. Net income margin decreased by 2.9 percentage points and reached 1.3%. Our net income margin is 0.4 percentage points below the industry median. We believe that Summit Pointe will benefit from reinvestment initiatives in fiscal years 2008 and 2009. We expect long-term positive effect on cost effectiveness and efficiency of operations and quality of services. However, net income margin may stay below industry benchmarks. Cost reimbursement nature of Medicaid contract with MDCH and direct impact of

Medicaid encounters on future funding do not create incentives to maximize current year Medicaid savings.

Financial stability indicators prove that Summit Pointe has sufficient reserves and is able to meet its current and long-term obligations. Detailed analysis of changes in Fund Balance is presented in Table 2. Summit Pointe has cash and cash equivalents available to cover 74.3% of unrestricted fund balance. This ratio slightly decreased from 79.7% as of the end of September 2006. Cash coverage of the fund balance at almost seventy five percent demonstrates the agency's financial stability. Effective cash management was the key factor that allowed us achieving this target.

The ratio of current assets over current liabilities (current ratio) of 2.0 is higher than that in September 2006 by 11.1%. It is 17.6% above industry median statistics. Increase of current ratio was attributable to the decrease of accounts and claims payable. Our days in accounts payable decreased from 22 to 19. Summit Pointe met its contractual payment obligation (the majority of our contracts require payments within 30 days). Current ratio of 2.0 demonstrates our solid liquid position. Overall, the "quality" of the agency's unrestricted fund balance number remains very high.

Statement of Changes in Fund Balance			
	Balance at	Increase	Balance at
	10/1/2006	(Decrease)	9/30/2007
Special Revenue Fund			
Reserved for Community Reinvestment	6,340,644	(2,239,316)	4,101,328
Reserved for Capital Purposes	1,998,464	654,324	2,652,788
Unreserved	4,293,624	(1,124,978)	3,168,646
Total Special Revenue Fund	12,632,732	(2,709,970)	9,922,762
Internal Service Fund			
Medicaid	5,126,558	177,519	5,304,077
General Fund	225,890	(225,890)	-
Total Internal Service Fund	5,352,448	(48,371)	5,304,077
Children Pooled Fund	-	1,638,760	1,638,760
Grand Total Fund Balance	17,985,180	(1,119,581)	16,865,599

Decrease in the fund balance restricted for community reinvestment is attributable to the increase of Medicaid expenditures due to the growth of new cases and service encounters provided to existing customers. Summit Pointe also contributed Medicaid funds to children pooled fund. Increase in Medicaid ISF is attributable to interest income. General fund ISF was used to cover GF loss. Fund balance restricted for capital purposes increased due to significant purchases. Summit Pointe did not have long-term debt as of September 30, 2007. Acquisition of residential properties to provide affordable housing to consumers contributed to the decrease of unreserved fund balance.

The unrestricted fund balance, fund balance reserved for community reinvestment, and internal service fund represent an estimated 54 days of operations based on the actual expenses for fiscal year 2007.

SUMMARY OF ACTIVITIES

Total revenues for the fiscal year 2007 were equal to \$83.6 million or 100.7% of the budget. Total expenditures (excluding community reinvestment) were equal to \$83.2 million or 100.2% of the budget. Excess of revenues over expenditures of \$400 thousand was better than budgeted break even target.

Prior year revenues comparison is presented in Table 3.

Medicaid specialty supports and services revenue represents 84.4% of total revenue and increased by \$2.2 million or 3.2% compared to the prior year. An increase in the number of Medicaid eligible persons and capitation rates were the major contributing factors.

State general fund priority population revenue (formula funding) represents 7.0% of total revenue and decreased by \$302 thousand or 4.9% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide the supports and services to indigent priority populations, including state facility utilization and other allowable expenses. General fund cuts represent great risk for Summit Pointe. Substantial reduction of General fund revenues prompted us to review General fund expenditures, evaluate efficiency of operations, and set aside additional internal reserves. Significant decrease in General fund revenues was offset by a slight increase in Adult Benefit Waiver revenues – new program offered by the State of Michigan.

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These funds represent 1.6% of total revenue and have increased by \$297 thousand or 28.8% over the prior year. Revenue diversification remains one of our top priorities. Community outreach campaign, outpatient clinic business restructuring, implementation of evidence based best clinical practices and outcome based alternative compensation system for clinicians were implemented successfully in fiscal year 2007 and ensured an increase in program service revenues. We should improve our collections efforts, billing timeliness and accuracy.

Grants and special designated revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 0.7% of total revenue and have decreased \$21 thousand or 3.5% over the prior year. The slight decrease was attributable to discontinuation of MIFPI and Juvenile justice grants.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 1.4% of total revenue and have increased \$263 thousand or 27.7% over the prior year. All of the increase in this source of revenue is attributable to interest income.

Revenues Analysis				
<i>For the years ended September 30, 2007 and 2006</i>				
	Fiscal Year 2007		Fiscal Year 2006	
Capitation Revenue				
Medicaid	70,538,843	84.4%	68,354,103	84.5%
General Fund	5,843,994	7.0%	6,144,657	7.6%
Adult Benefit Waiver	647,767	0.8%	632,658	0.8%
MI Child	17,398	0.0%	19,350	0.0%
Total Capitation Revenue	77,048,002	92.2%	75,150,768	92.8%
Special and Designated Funds				
OBRA PASSAR Evaluations	277,375	0.3%	275,347	0.3%
MIFPI	-	0.0%	48,521	0.1%
HHAP/PATH Housing Assistance	54,470	0.1%	53,960	0.1%
HUD	85,365	0.1%	16,480	0.0%
Juvenile Justice	-	0.0%	27,710	0.0%
Child Care Consultation	70,732	0.1%	70,000	0.1%
Family Psychoeducation and Self Help	56,193	0.1%	76,497	0.1%
Respite-Tobacco Tax	40,953	0.0%	37,128	0.0%
Total Special and Designated Funds	585,088	0.7%	605,643	0.7%
Local Funding				
County Appropriation	265,000	0.3%	265,000	0.3%
Earned Contracts and Other Revenue				
Contract Revenue	2,776,304	3.3%	2,890,109	3.6%
Net Patient Service Revenue	1,327,380	1.6%	1,030,008	1.3%
Interest Income	948,253	1.1%	685,402	0.8%
Rent Income	93,742	0.1%	119,616	0.1%
Miscellaneous	495,611	0.6%	191,584	0.2%
Total Earned Contracts and Other Revenue	5,641,290	6.8%	4,916,719	6.1%
Total Revenue	83,539,380	100.0%	80,938,130	100.0%

Total expenditures as percent (%) of revenues are presented in Table 4. Overall, total expenditures increased from 97.1% to 99.6% of total revenues. This increase is attributable to the growth of Medicaid expenditures that reflect increase in the amount of services provided to Medicaid beneficiaries.

For the years ended September 30, 2007 and 2006

	Fiscal Year 2007		Fiscal Year 2006	
Total Revenues	83,539,380	100.0%	80,938,130	100.0%
Total Expenditures (Excluding Community Reinvestment)	83,207,987	99.6%	78,610,149	97.1%
Inpatient Services	2,214,087	2.7%	1,554,223	1.9%
Residential Services	4,612,630	5.5%	4,335,473	5.4%
Supportive and Other Services	4,091,115	4.9%	3,659,114	4.5%
Medicaid Supports & Services Incurred at Affiliates	41,361,582	49.5%	39,946,853	49.4%
External Healthcare Expenses, Total	52,279,414	62.6%	49,495,662	61.2%
Contract Programs	3,160,946	3.8%	3,034,152	3.7%
Client Support	1,930,794	2.3%	1,771,173	2.2%
Salaries and Fringes	7,879,701	9.4%	7,155,908	8.8%
Clinical Contracts	2,675,880	3.2%	2,161,359	2.7%
Contract Consultants	4,446,555	5.3%	5,794,090	7.2%
Community Education	342,333	0.4%	398,964	0.5%
Employee Development	1,701,186	2.0%	1,004,292	1.2%
Facilities	2,715,315	3.3%	1,822,237	2.3%
Local Funds Paid to DCH	1,110,749	1.3%	1,110,749	1.4%
Medicaid QAAP	4,247,893	5.1%	4,087,944	5.1%
General & Administrative	700,810	0.8%	754,270	0.9%
Miscellaneous	16,411	0.0%	19,349	0.0%

Personnel expense increased by 13.3% and reached \$10.6 million. Research and development expenditures decreased by 23.2%. Summit Pointe spent approximately \$4.4 million for these purposes. Local funds paid to DCH remained constant at \$1.1 million.

FUTURE OUTLOOK

The state of Michigan continues to be challenged to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook does not look stable. The need for strategies to provide medical services for Medicaid recipients more effectively is growing. The cost of operating a Medicaid program has risen significantly over the past seven years, an average of 9.4% per year from 2000 to 2007. The Federal government has expressed greater willingness to grant states more flexibility in the operation of their Medicaid programs through the “1115 waiver” process. The MDCH has undertaken the process to re-base the rates for Medicaid capitation payments. The impact of new actuarially sound capitation rates in fiscal year 2009 is unknown. The executive recommendation to create a centralized state wide mental health managed care risk pool will impact Summit Pointe’s ability to carry financial risk. The adjustment of Medicaid rates in fiscal year 2008 may result in increase of Medicaid revenues for Venture Affiliation if the current Medicaid enrollment trend continues. However, the on-going attempts to smooth the results of rebasing may have negative impact on financial stability of Summit Pointe and its Affiliates. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of Summit Pointe is

currently healthy, many challenges lie ahead. We understand the necessity to continue our innovative approaches to service delivery and community involvement. We will focus on implementing evidence based clinical practices, expanding natural supports for our customers, improving integration with primary care physicians, developing youth and senior prevention programs. One of the main strategic goals in fiscal year 2008 will remain continuing refinement of uniform benefit across Venture Affiliation, realization of shared efficiencies with our partners, and revenue diversification.

The following key areas require our permanent attention.

- **Enhanced HIT** (health information technology) to include analytic and operational systems, management reporting, electronic health records, and electronic data exchange. Installation and re-development of practice management and care management applications; changes in data warehousing, data extraction, and management information reporting will be necessary to achieve this goal. Business processes congruous with application support must be mapped and re-engineered.
- **Need based funding.** Future Medicaid budget and sub capitation funding for each Venture Affiliate should reflect customers' needs and the most effective and efficient service delivery models
- **Administrative Efficiency.** Along with our clinical programs productivity focus, we will seek and find administrative cost-effectiveness enhancements inside the benefits management functions. We will seek and perform focused and specific options for administrative efficiencies in PIHP functions complete with savings estimates. Additionally, we will enhance business process mapping, expensing and operations engineering support and expertise.
- **Regulatory compliance in the Medicaid Program.** The PIHP will strengthen and assure regional compliance to federal and state regulatory and contractual obligations, including new MDCH Compliance Examination Guidelines. We will assure 100% reporting of compliant Medicaid encounters, claims and costs and 0% reporting of non-compliant Medicaid encounters, claims and costs. Member protections will be further strengthened and documented.
- **Health Resource Management (HRM).** A new HRM regional plan with an outlier management focus has been approved by the VBH Board. Through it and its related IS-IT and staff function supports we will reduce our utilization management functional cost burden, assure uniformity of benefit, enhance system capacity for analytics and reporting, reduce intrusions into clinical care, and enhance local control and consumer choice without sacrificing Member safeguards and at-hand performance proofs.
- **Evidence-Based Practices (EBP).** Evidence-based, model and promising practices have been identified and largely installed. While others may be installed, our focus now is on assuring proper client-clinician matching and fidelity to the practices. While we need not perform primary research we must attend to the results of these efforts.
- **Management Information Systems.** Using data and information, we will extend both internal management reporting at all levels, seek and use external comparative benchmark data, and develop a sophisticated evaluation and feedback system supporting continuous quality improvement in both clinical and administrative areas. It is imperative that region-wide PIHP performance measure scores are brought to and maintained at standard quickly.
- **Coordination of Care.** We will strengthen the relations and interactions with Medical Health Plans (MHPs) to immediate member benefit and intermediate system and VBH affiliate benefit.
- **Uniform Benefit.** We will assure common understanding, adherence to, provision, and documentation of the multiple Medicaid and non-Medicaid plans and benefits throughout the region. Each PIHP provider and managed care function will meet process, program and product requirements.

- **Public policy.** We will use our growing relations and influence with both federal and state elected and appointed officials as well as ally professional and trade associations to advocate for policies which best meet the needs of those we serve.

Customers needs remain our top priority that will drive all clinical and financial decisions. Summit Pointe is committed to “Making Life Work” for its customers.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



SUMMIT POINTE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007 AND 2006

	Governmental Activities	
	2007	2006
Assets		
Current assets		
Cash and investments - unrestricted	\$12,598,319	\$16,332,286
Accounts receivable, net	1,183,088	834,649
Due from other governmental units	606,135	2,454,409
Prepaid expenses	1,249,831	1,171,627
Total current assets	15,637,373	20,792,971
Noncurrent assets		
Cash and investments - restricted	7,422,391	5,461,865
Capital assets - depreciable, net	2,574,433	1,924,599
Capital assets - land	78,355	73,865
Total noncurrent assets	10,075,179	7,460,329
Total assets	25,712,552	28,253,300
Liabilities		
Current liabilities		
Accounts payable	7,497,605	8,164,921
Due to other governmental units	378,261	1,332,237
Accrued wages and other payroll liabilities	564,716	483,289
Accrued expenditures	406,372	287,673
Total liabilities	8,846,954	10,268,120
Net Assets		
Invested in capital assets, net of related debt	2,652,788	1,998,464
Restricted for:		
Community reinvestment	4,101,328	6,340,644
Risk management	5,304,077	5,352,448
Children Pooled Funding	1,638,760	-
Unrestricted	3,168,646	4,293,624
Total net assets	\$16,865,599	\$17,985,180

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH COMPARATIVE DATA

		Program Revenues		Net (Expense)	
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes Net Assets	2006
Functions					
Governmental activities					
Health & welfare - mental health	<u>\$85,628,316</u>	<u>\$75,231,880</u>	<u>\$7,359,247</u>	(\$3,037,189)	(\$640,015)
General revenues					
Transfers in from affiliated boards				775,464	775,459
Unrestricted investment earnings				948,253	685,402
Restricted investment earnings				<u>231,368</u>	<u>191,827</u>
Total general revenues and contributions				<u>1,955,085</u>	<u>1,652,688</u>
Change in net assets				(1,082,104)	1,012,673
Net assets, beginning of year				17,985,180	16,561,274
Prior period adjustment				<u>(37,477)</u>	<u>411,233</u>
Net assets, end of year				<u><u>\$16,865,599</u></u>	<u><u>\$17,985,180</u></u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS



SUMMIT POINTE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007 AND 2006

	Major Funds		Total Government Funds	
	General Fund	Children Pooled Funding	2007	2006
Assets				
Cash and investments - unrestricted	\$11,961,833	-	\$11,961,833	\$13,664,448
Cash and investments - restricted	770,628	\$1,984,172	2,754,800	2,777,255
Accounts receivable, net	1,183,088	-	1,183,088	834,649
Due from other governmental units	606,135	-	606,135	2,454,409
Prepaid expenses	1,249,831	-	1,249,831	1,171,627
Total assets	<u>\$15,771,516</u>	<u>\$1,984,172</u>	<u>\$17,755,688</u>	<u>\$20,902,388</u>
Liabilities				
Accounts payable	\$7,152,193	\$345,412	\$7,497,605	\$8,164,921
Due to other governmental units	378,261	-	378,261	1,332,237
Accrued wages and other payroll liabilities	564,716	-	564,716	483,289
Accrued expenditures	406,372	-	406,372	287,673
Total liabilities	<u>8,501,542</u>	<u>345,412</u>	<u>8,846,954</u>	<u>10,268,120</u>
Fund balance				
Reserved for prepaid expenses	1,249,831	-	1,249,831	1,171,627
Reserved for community reinvestment	2,851,497	-	2,851,497	5,169,017
Reserved for children pooled funding	-	1,638,760	1,638,760	-
Unreserved	3,168,646	-	3,168,646	4,293,624
Total fund balances	<u>7,269,974</u>	<u>1,638,760</u>	<u>8,908,734</u>	<u>10,634,268</u>
Total liabilities and fund balances	<u>\$15,771,516</u>	<u>\$1,984,172</u>	<u>\$17,755,688</u>	<u>\$20,902,388</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Total fund balance - governmental funds	\$8,908,734
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	6,058,029
Deduct: Accumulated depreciation	(3,405,242)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Net assets of governmental activities accounted for in the internal service fund	<u>5,304,077</u>
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Net assets of governmental activities	<u><u>\$16,865,599</u></u>
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SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Major Funds		General Fund	
	General Fund	Children Pooled Funding	2007	2006
Revenues				
State grants				
Capitation revenue				
Medicaid	\$68,738,843	\$1,800,000	\$70,538,843	\$68,354,103
General fund	5,843,994	-	5,843,994	6,144,657
Adult benefit waiver	647,767	-	647,767	632,658
MI Child	17,398	-	17,398	19,350
Total capitation revenue	75,248,002	1,800,000	77,048,002	75,150,768
Respite - tobacco tax	29,029	-	29,029	25,060
Child care consultation revenue	70,732	-	70,732	70,000
Family psychoeducation program revenue	58,162	-	58,162	69,528
Self-Help Drop-In Center	(1,969)	-	(1,969)	6,969
PAS / ARR grant	69,344	-	69,344	68,837
Total state grants	225,298	-	77,273,300	75,391,162
Federal grants				
Path/housing assistance	54,470	-	54,470	53,960
MIFPI - wraparound	-	-	-	48,521
Respite services	11,924	-	11,924	12,068
Juvenile justice	-	-	-	27,710
HUD	85,365	-	85,365	16,480
PAS / ARR grant	208,031	-	208,031	206,510
Total federal grants	359,790	-	359,790	365,249
Contributions - local units				
County funding	265,000	-	265,000	265,000
Earned contracts and other revenue				
Contract revenue	2,776,304	-	2,776,304	2,890,109
Net patient service revenue	1,327,380	-	1,327,380	1,030,008
Interest income	948,253	-	948,253	685,402
Rent income	93,742	-	93,742	119,616
Other	353,488	142,123	495,611	191,584
Total earned contracts and other revenue	5,499,167	142,123	5,641,290	4,916,719
Total revenues	81,597,257	1,942,123	83,539,380	80,938,130

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	Major Funds		General Fund	
	General Fund	Children Pooled Funding	2007	2006
Expenditures				
Health & welfare - mental health				
Inpatient	\$2,214,087	-	\$2,214,087	\$1,554,222
Residential	5,008,353	-	5,008,353	4,708,677
Contract programs	3,160,946	-	3,160,946	3,034,152
Support and other services	4,449,224	\$37,614	4,486,838	4,032,319
Salaries and fringes	7,879,701	-	7,879,701	7,155,908
Clinical contracts	2,516,447	159,433	2,675,880	2,161,359
Client support	1,928,029	2,765	1,930,794	1,771,173
Contract consultants	4,384,264	62,291	4,446,555	5,794,089
Community education	342,333	-	342,333	398,964
Employee development	1,670,356	30,830	1,701,186	1,004,292
Facilities	1,479,752	-	1,479,752	943,312
General and administrative	700,810	-	700,810	754,270
Local funds paid to DCH	1,110,756	-	1,110,756	1,110,749
Medicaid supports and services - affiliates	42,990,459	-	42,990,459	41,483,039
Medicaid QAAP expense	4,247,893	-	4,247,893	4,087,944
Miscellaneous	5,981	10,430	16,411	19,349
Small equipment	634,372	-	634,372	434,757
Capital outlay	1,255,514	-	1,255,514	574,053
Total expenditures	85,979,276	303,363	86,282,639	81,022,628
Excess of revenues over expenditures	(4,382,020)	1,638,760	(2,743,260)	(84,498)
Other financing sources (uses)				
Operating transfers in (out) - from affiliated boards	775,464	-	775,464	775,459
Operating transfers in (out) - internal service fund	499,760	-	499,760	(677,600)
Excess of revenues over (under) expenditures and other sources and uses	(3,106,796)	1,638,760	(1,468,036)	13,361
Fund balance, beginning of year	10,634,268	-	10,634,268	10,595,609
Prior period adjustment	(257,498)	-	(257,498)	25,298
Fund balance, end of year	<u>\$7,269,974</u>	<u>\$1,638,760</u>	<u>\$8,908,734</u>	<u>\$10,634,268</u>

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances - total governmental funds (\$1,468,036)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense.

Add: Capital outlay	1,255,514
Deduct: Depreciation expense	(601,191)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract. The
net revenue (expense) is reported with governmental activities.

Add: Interest income from internal service fund	231,368
Deduct: Transfers in (out) from internal service fund	<u>(499,760)</u>

Change in net assets of governmental activities (\$1,082,104)

SUMMIT POINTE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Assets		
Cash and cash equivalents	<u>\$5,304,077</u>	<u>\$5,352,448</u>
Total assets	<u><u>\$5,304,077</u></u>	<u><u>\$5,352,448</u></u>
Net assets		
Restricted	<u>\$5,304,077</u>	<u>\$5,352,448</u>
Total net assets	<u><u>\$5,304,077</u></u>	<u><u>\$5,352,448</u></u>

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Non-operating revenue		
Interest income	\$231,368	\$191,827
Operating transfers in (out)		
Operating transfers in - affiliated boards	-	660,930
Operating transfers out - abatement	(499,760)	(43,739)
Total operating transfers in (out)	(499,760)	617,191
Change in net assets	(268,392)	809,018
Net assets, beginning of year	5,352,448	4,483,021
Prior period adjustment	220,021	60,409
Net assets, end of year	<u>\$5,304,077</u>	<u>\$5,352,448</u>

SUMMIT POINTE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	Internal Service Fund	
	2007	2006
Cash flows from investing activities		
Interest revenue	\$231,368	\$191,827
Cash flows from capital and related financing activities		
Operating transfers in	-	660,930
Operating transfers (out) - abatement	(499,760)	(43,739)
Total cash flows from capital and related financing activities	(499,760)	617,191
Net increase in cash and cash equivalents	(268,392)	809,018
Cash and cash equivalents, beginning of year	5,352,448	4,483,021
Prior period adjustment	220,021	60,409
Cash and cash equivalents, end of year	<u>\$5,304,077</u>	<u>\$5,352,448</u>
Adjustment to reconcile net income to net cash provided by operating activities:		
Operating income (loss)	-	-

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Summit Pointe (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Calhoun who meet eligibility and other criteria. As the community mental health services provider for Calhoun County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Summit Pointe
Notes To The Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Children Pooled Fund – This fund represents amounts set aside by Summit Pointe and Calhoun County Court to serve youth with severe mental health and/or behavioral needs, referred through the juvenile justice or child welfare systems, who would otherwise be placed in psychiatric hospitals, residential treatment centers or juvenile correctional facilities.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables Between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan, County of Calhoun, and other Community Mental Health Agencies.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Computers	3
Equipment & Furnishings	3-7
Buildings & Improvements	2-10

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions. Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the master contracts with DCH.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental fund financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental fund financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental fund financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Calhoun County.

Medicaid Revenue

Summit Pointe serves as the Pre-Paid Inpatient Health Plan (known as Venture Behavioral Health) for the area that includes Barry, Berrien, Branch, Calhoun, and Van Buren Counties. Venture Behavioral Health contracts directly with the MDCH to receive Medicaid revenues for Medicaid-qualified services provided to the residents of these counties. Summit Pointe administers these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year, the Authority incurred expenditures in excess of the amounts appropriated for the current year as shown on the schedule in the back of this report as unfavorable variances. The Authority used prior year Medicaid savings as an additional source of revenues according to the contract with MDCH.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash and Cash Equivalents	2007	2006
Petty Cash	\$1,175	\$925
Checking, Savings, & Money Market Accounts	15,022,536	18,996,226
Certificates of Deposit	4,997,000	2,797,000
Totals	\$20,020,711	\$21,794,151

Restricted Cash and Cash Equivalents

Cash has been restricted for future payment of the compensated absences liability in the amount of \$134,142. These restricted assets are held in a separate cash account with local financial institutions.

Cash and cash equivalents in the Internal Service Fund have been restricted in the amount of \$5,304,077 for the expected future risk corridor requirements of the MDCH contract.

Cash and cash equivalents for Children Pooled Funding have been restricted in the amount of \$1,984,172.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$20,256,556 of the Authority's \$20,758,491 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Summit Pointe
Notes To The Financial Statements

Investments

At September 30th, the investments of the Authority were as follows:

Investment Type	Fair Value	Book Value	S&P's Rating	%
Commercial Paper	\$1,676,316	\$1,676,316	AAA	59.9%
Government Cash Mgt. Fund	123,034	123,034	AAA	4.4%
Federal Home Loan Bonds	1,000,000	1,000,000	AAA	35.7%
Total Value	\$2,799,350	\$2,799,350		100.0%

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Authority's investments.

The Authority's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others for services rendered, advance deposits, and refunds. Amounts are stated net of allowances for doubtful accounts.

Summit Pointe
Notes To The Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From:	2007	2006
State of Michigan - OBRA	\$59,888	\$71,330
State of Michigan - Wraparound	-	11,133
State of Michigan - PATH/Homeless Housing	11,308	3,389
State of Michigan - Juvenile Justice	-	7,500
State of Michigan - Drop In Center	-	5,195
State of Michigan - Child Care Consultation	13,507	16,971
State of Michigan - DCH	150,865	240,951
State of Michigan - Respite	-	3,017
State of Michigan - MRS Education	-	13,750
State of Michigan - HUD Grant	-	14,630
State of Michigan - Family Psychoeducation	19,318	14,486
State of Michigan - MSHDA	20,698	-
County of Calhoun	66,250	66,250
Other Mental Health Boards	264,301	1,985,807
Totals	\$606,135	\$2,454,409

Prepaid Expenses

Prepaid expenses at September 30th represent payments for the following expenses that will benefit future periods:

Prepaid Expenses	2007	2006
Insurance	\$60,285	\$49,915
IS Service Agreement	77,270	-
Leases	1,101,110	1,108,380
Other	11,166	13,332
Totals	\$1,249,831	\$1,171,627

Summit Pointe
Notes To The Financial Statements

Capital Assets

Capital assets activity for the year ended September 30, 2007 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
<i>Assets</i>				
Equipment & Furnishings	\$794,931	\$61,543	-	\$856,474
Buildings & Improvements	2,481,966	241,218	-	2,723,184
Computers	1,451,753	948,263	-	2,400,016
Land	73,865	4,490	-	78,355
Total Assets	4,802,515	1,255,514	-	6,058,029
<i>Accumulated Depreciation</i>				
Equipment & Furnishings	(344,846)	(126,524)	-	(471,370)
Buildings & Improvements	(1,302,425)	(128,749)	-	(1,431,174)
Computers	(1,156,780)	(345,918)	-	(1,502,698)
Total Accum. Depreciation	(2,804,051)	(601,191)	-	(3,405,242)
Totals	\$1,998,464	\$654,323	-	\$2,652,787

Depreciation expense in the amount of \$601,191 was charged to Health and Welfare – Mental Health Program.

Due to Other Governmental Units

Due to other governmental units as of September 30th, consists of the following:

Due to	2007	2006
State of Michigan - DCH Cost Settlement	\$112,250	\$1,054,233
State Inpatient	141,604	278,004
Due to Other Agencies	124,407	-
Totals	\$378,261	\$1,332,237

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Accrued Expenditures

This liability represents accrued FICA, Medicare, retirement, and unemployment expenses, related to salaries and wages payable as of September 30th, amounts withheld from employee's paychecks but not yet remitted to the appropriate governmental unit, and accrued compensated absences as follows:

Accrued Expenditure	2007	2006
Pension Payable	\$138,108	\$126,193
401(k) Payable	42,911	-
MESC Payable	40,884	29,578
Flexible Spending Withholding Payable	17,890	5,407
Accrued Compensated Absences Payable	134,142	109,417
Other	32,437	17,078
Totals	\$406,372	\$287,673

Compensated Absences

The Authority's policy allows employees to accumulate up to 40 hours of scheduled time off in addition to their annual accrual. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment. At the end of the current fiscal year the vacation pay liability was \$93,857.

The Authority's policy allows employees 48 hours of unscheduled time off per year. Employees under a union agreement may carry these hours into future years, but no more than 112 hours may be accumulated at any one time. Amounts accumulated are to be paid to an employee and recognized as an expense when time is taken. Upon termination of employment, employees are paid for their unused time on a pro-rated basis based on their years of service. At the end of the current fiscal year the unscheduled time off liability was \$40,286.

The amount of the compensated absences liability recognized in the general fund is equal to the amount estimated to be paid during the 90 days immediately following year-end.

Summit Pointe
Notes To The Financial Statements

Leases

Summit Pointe has entered into operating leases for the use of two buildings. Both leases were entered into on December 1, 1996. The terms of these leases call for 240 equal monthly payments of \$16,700 and \$6,465. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of September 30th:

Year Ending September 30th	Minimum Payments
2008	\$277,980
2009	\$277,980

Prior Period Adjustments

Prior period adjustments shown in the fund level financial statements in this report are due to the following:

Adjustments to fund balance	2007	2006
Medicaid Savings – HSW Accrual	-	(\$8,114)
Transfer In From Lakeshore CA – ISF	-	33,412
Adjustment to ISF per revised Financial Status Report	(\$220,021)	-
Adjustment due to change of estimates related to certain FY06 revenues and expenditures line items	(37,477)	-
Total Increase (Decrease) To Fund Balance	(\$257,498)	\$25,298

Prior period adjustments shown in the government wide level financial statements in this report are due to the following:

Adjustments to net assets	2007	2006
Medicaid Savings – HSW accrual	-	(\$8,114)
Transfer In From Lakeshore CA - ISF	-	33,412
Accumulated Depreciation	-	385,935
Adjustment due to change of estimates related to certain FY06 revenues and expenditures line items	(\$37,477)	-
Total Increase (Decrease) To Net Assets	(\$37,477)	\$411,233

Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Net assets have been restricted and fund balance has been reserved for the amount of Medicaid Savings realized from the Michigan Department of Community Health's Managed Specialty Supports and Services Contract. As of September 30th, this amount was \$224,977 and must be used according to the Authority's reinvestment strategy in fiscal year 2008.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

NOTE 4. OTHER INFORMATION

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Pension Plan

Plan Description

The employees of the Authority are covered under a defined contribution (401k) retirement plan. Each employee is eligible to be a member of this plan after one year of service. The plan provides for normal retirement at age 65. Early retirement is available after age 55.

When early or normal retirement age is reached the vesting percentage automatically is 100%. The vesting percent will also become 100% if the plan terminates. If an employee leaves the job before age 65, dies, or becomes disabled, vesting will be based on the following schedule:

Years of Participation	Vested Percentage
Less than 1	0%
More than 1	100%

Funding Policy

Each member may direct up to \$15,500 of his or her compensation to the plan on a pre-tax basis. The maximum percentage may vary from year to year because it is based on the average of the contributions made by all employees. Salary deferrals may not be distributed to the employees before they reach age 59 1/2 except for death, disability, termination of employment, or hardship.

The Authority will contribute to the plan, on the employee's behalf, a matching contribution equal to \$.60 for each \$1.00 of salary deferrals made by the employee up to a maximum contribution for each plan year of 5% of the employee's compensation for the plan year. The Authority has no additional liability beyond these contributions.

FICA Alternative Plan

Plan Description

The effective date of the plan is November 4, 1996. The primary purpose of the plan is to provide for pension contributions for participants. The plan is maintained as an alternative to the Social Security system. The plan and related trust are intended to satisfy the requirements for tax qualification as a money purchase pension plan under sections 401(a) and 501(a) of the Internal Revenue Code of 1986 as applied to governmental plans and the requirements for a retirement system under section 312(b)(7)(F) of the Code as applied to governmental employees. All employees are eligible to participate.

Funding Policy

The employer and employee both contribute 6.2% each of the participant's compensation for the plan year. Participants are fully vested at all times. All funds are placed into a pooled account and invested. The current investment manager is Northern Trust. The current third party administrator is Watkins Ross.

Risk Management

Michigan Municipal Risk Management Authority

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further described in these notes.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities. As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If, for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$15,000,000 for liability and \$1,500,000 for vehicle physical damage.

Internal Service Fund

The Authority authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program Contract within the established risk corridor. This contract provides for the use of Department of Community Health funding for the establishment of Internal Service Funds.

Expenditures from this fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

Incurred but Not Reported Liabilities

Health claims and health claims payable include estimates of obligations for health care services that have been rendered on behalf of members for which claims have either not yet been received or processed. Claim reserves for health costs incurred but not reported are estimated using generally accepted actuarial methods and are in accordance with Actuarial Standards of Practice promulgated by the Actuarial Standards Board, the committee of the American Academy of Actuaries that establishes the professional guidelines and standards for actuaries to follow.

The methodology used by Alex Zeid & Associates calculates the total reserve, which includes both the reported and unpaid claims (pending reserve) and the incurred but not reported claims (IBNR). The actuarial models used in estimating reserves considers factors such as historical data adjusted for payment patterns, cost trends, service and benefit mix, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increases or decreases in membership, seasonality, and other relevant factors.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULES



SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2007

	Budgeted Amounts			Variances Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
State grants				
Capitation revenue				
Medicaid	\$70,231,107	\$70,231,107	\$70,538,843	\$307,736
General fund	6,145,000	6,145,000	5,843,994	(301,006)
Adult benefit waiver	633,000	633,000	647,767	14,767
MI Child	19,500	19,500	17,398	(2,102)
Total capitation revenue	77,028,607	77,028,607	77,048,002	19,395
Respite - tobacco tax	25,060	25,060	29,029	3,969
Child care consultation revenue	71,400	71,400	70,732	(668)
Family psychoeducation program revenue	43,071	43,071	58,162	15,091
Self-Help Drop-In center	-	-	(1,969)	(1,969)
PAS / ARR grant	82,775	82,775	69,344	(13,431)
Total state grants	77,250,913	77,250,913	77,273,300	22,387
Federal grants				
Path / housing assistance	56,310	56,310	54,470	(1,840)
Respite services	15,000	15,000	11,924	(3,076)
HUD	71,333	71,333	85,365	14,032
PAS / ARR grant	248,324	248,324	208,031	(40,293)
Total federal grants	390,967	390,967	359,790	(31,177)
Contributions - local units				
County funding	265,000	265,000	265,000	-
Total contributions - local units	265,000	265,000	265,000	-
Earned contracts and other revenue				
Contract revenue	2,942,100	2,942,100	2,776,304	(165,796)
Net patient service revenue	1,080,001	1,080,001	1,327,380	247,379
Interest income	750,000	750,000	948,253	198,253
Rent income	84,435	84,435	93,742	9,307
Other	305,282	185,282	495,611	310,329
Total earned contracts and other revenue	5,161,818	5,041,818	5,641,290	599,472
Total revenues	83,068,698	82,948,698	83,539,380	590,682

The notes to the financial statements are an integral part of this statement.

SUMMIT POINTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2007

	Budgeted Amounts		Actual	Variances Between Actual and Final Budget
	Original	Final		
Expenditures				
Health & welfare - mental health				
Inpatient	\$1,822,480	\$1,822,480	\$2,214,087	(\$391,607)
Residential	5,044,279	5,044,279	5,008,353	35,926
Contract programs	2,675,721	2,510,721	3,160,946	(650,225)
Support and other services	3,684,728	5,484,728	4,486,838	997,890
Salaries and fringes	7,187,457	7,349,957	7,879,701	(529,744)
Clinical contracts	2,909,750	2,909,750	2,675,880	233,870
Client support	1,858,976	1,858,976	1,930,794	(71,818)
Contract consultants	4,546,788	4,464,188	4,446,555	17,633
Community education	269,060	251,560	342,333	(90,773)
Employee development	1,068,288	926,788	1,701,186	(774,397)
Facilities	1,172,373	1,040,373	1,479,752	(439,379)
General and administrative	747,468	711,268	700,810	10,457
Local funds paid to DCH	1,110,756	1,110,756	1,110,756	-
Medicaid supports and services - affiliates	42,636,802	42,636,802	42,990,459	(353,657)
Medicaid QAAP expense	4,213,866	4,213,866	4,247,893	(34,027)
Miscellaneous	115,950	40,750	16,411	24,339
Small equipment	312,500	285,000	634,372	(349,372)
Capital outlay	347,070	347,070	1,255,514	(908,444)
Total expenditures	<u>81,724,312</u>	<u>83,009,312</u>	<u>86,282,639</u>	<u>(3,273,327)</u>
Excess of revenues over expenditures	1,344,386	(60,614)	(2,743,260)	(2,682,645)
Other financing sources (uses)				
Operating transfers in (out) - from affiliated boards	775,464	775,464	775,464	-
Operating transfers in (out) - from internal service fund	<u>-</u>	<u>-</u>	<u>499,760</u>	<u>499,760</u>
Excess of revenues over (under) expenditures and other sources and uses	2,119,850	714,850	(1,468,036)	(2,182,885)
Fund balance, beginning of year	10,076,330	10,634,268	10,634,268	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(257,498)</u>	<u>(257,498)</u>
Fund balance, end of year	<u>\$12,196,180</u>	<u>\$11,349,118</u>	<u>\$8,908,734</u>	<u>(\$2,440,384)</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Summit Pointe
Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Summit Pointe (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

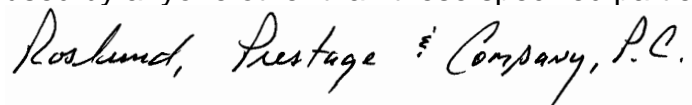
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated February 21, 2008.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 21, 2008

**Summit Pointe
Schedule of Findings and Responses**

Finding 2007-1

Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



MANAGEMENT LETTER

Board of Directors
Summit Pointe
Battle Creek, Michigan

In planning and performing our audit of the financial statements for Summit Pointe for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated February 21, 2008 on the financial statements of Summit Pointe.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage & Company, P.C.'.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 21, 2008

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

We were pleased to see that management has implemented our recommendations we included in our previously issued Management Letter.

We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages. The effective date for the Authority to implement this new standard is for the fiscal year ending September, 2010. However, earlier application is encouraged by the GASB.

Depreciation Schedule

The Authority currently does not have a computerized system in place specifically designed for capital asset recordkeeping and for calculating depreciation; but rather these functions are recorded on an Excel spreadsheet.

We recommend that the Authority invest in a depreciation software package or contract with a third party to provide this service. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically and can aid in accounting for additions or disposals and calculating any gains or losses on disposals.